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# **GASB Update**

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**Accounting Policy Meeting  
July 19, 2019**

**Financial Reporting Section  
Fiscal Management Division**



## Speakers

- David Haecker
- David Tropea
- Diana Dunnahoo
- Gaby Needham
- John Walker
- John Barnes
- Michael Hensley

# Agenda



- I. GASB 83, *Certain Asset Retirement Obligations*
- II. GASB 84, *Fiduciary Activities*
- III. GASB 87, *Leases* (will be discussed after GASB 88)
- IV. GASB 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*
- V. GASB 90, *Accounting and Financial Reporting for Majority Equity Interests*



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# **GASB Statement No. 83, *Certain Asset Retirement Obligations***

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## **Implementation Fiscal 2019**



# Asset Retirement Obligations (ARO)

Defined as a **legally enforceable liability** associated with the **retirement of a tangible capital asset**.

- Retirement includes the permanent end of use such as sale, abandonment, recycling and other types of disposal
- Does not include temporary idling

# Examples



- Decommissioning nuclear reactors
- Medical magnetic resonance imaging equipment, X-ray machines, proton therapy machines, gamma knives and pods, irradiators and broad scope radioactive material licenses
- Dismantling and removing waste-to-energy and sewage treatment plants
- Removing and disposing of wind turbines and solar farms
- Obligations to remove data from computers when disposed



## Exclusions

- Obligations arising solely from plan to sell or for an alternative use of tangible capital asset
- Pollution remediation covered in GASB 49 & associated with other-than-normal use of tangible capital asset
- Normal maintenance costs
- Replacement parts
- Landfill post-closure care costs and those not covered by GASB 18
- Conditional obligations to perform retirement activities



# Recognition of a Liability

- Incurred based on the occurrence of **both** external and internal obligating events from normal operations
- Amount is reasonably estimable

Sources of external obligating events:

- Approval of federal, state or local laws, or regulations establishing disposal requirements
- Creation of a legally binding contract
- Issuance of a court judgment



## Recognition of Liability (cont.)

### Sources of internal obligating events:

- Occurrence of contamination from normal operations and not in the scope of GASB 49
- Non-contamination-related AROs:
  - Use of the tangible capital asset
  - Place into operations
  - Abandonment
- Acquisition of tangible capital asset with an existing ARO



# Initial Measurement of an ARO

- Based on the **best estimate** of the **current value** of outlays expected to be incurred during decommissioning:
  - Best estimate requires probability weighting of potential outcomes when sufficient evidence is available or most likely amount in range of potential outcomes
  - Current value — the amount that would be paid if all equipment, facilities and services incurred in the estimate were acquired at fiscal year-end



## Initial Measurement of an ARO (cont.)

- A calculation template will be available in the Reporting Requirements website
- Liabilities should be established even without a formal decommissioning plan



# Subsequent Measurement

- Adjust annually the current value for effects of inflation or deflation
- Evaluate annually all relevant factors to determine if one or more of those factors significantly increases or decreases the estimated outlays
- Factors leading to significant changes:
  - Price increases or decreases due to factors other than inflation or deflation
  - Changes in technology



## Subsequent Measurement (cont.)

- Changes in legal or regulatory requirements resulting from changes in laws, regulations, contracts or court judgments
- Changes in the type of equipment, facilities, or services use in meeting the obligations to retire the tangible capital asset
- Recognize as deferred outflow of resources for a liability that increases or decreases before retirement of tangible capital asset
- Recognize as outflow of resources or inflow of resources for a liability that increases or decreases at or after retirement of tangible capital asset



# General Ledger Accounts and COBJ

Valid general ledger accounts:

- 0573 Deferred Outflow of Resources
- 1033 Current Liability ARO
- 1213 Noncurrent Liability ARO
- 1533 BC Current Liability ARO
- 1713 BC Noncurrent Liability ARO

Valid COBJ:

- 7840 Net Change in ARO

# Accounting Entry



Initial measurement of ARO and corresponding deferred outflow:

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DR GL 0573	Deferred Outflow of Resources
CR GL 1213	Noncurrent Liability ARO

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Reduction of deferred outflow:

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DR COBJ 7840	Net Change in ARO
CR GL 0573	Deferred Outflow of Resources

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# Notes to Financial Statements



Disclosed in Note 5 – Long-Term Liabilities of AFR:

- A general description of the AROs, associated tangible capital assets and source of the obligations
- Methods and assumptions used to measure the liabilities
- Estimated remaining useful life of the associated tangible capital assets
- Compliance with legal required funding and assurance provisions
- Restricted amounts for payments



## Notes to Financial Statements (cont.)

- Facts and reasons of AROs not recognized in financial statements

Upload files in the **Other Notes and Disclosures (ONDSS)** web application.

# Questions?





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# **GASB Statement No. 84,** ***Fiduciary Activities***

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## **Implementation Fiscal 2020**

# Funds Held for 3 Months or Less



Paragraph 19 exception:

- Allows **ONLY** Business Type Activities (BTA) and Enterprise Funds to report activity in the BTA Statement of Net Position when receipts are normally expected to be held for three months or less



## Funds Held for 3 Months or Less (cont.)

GASB Implementation Guide 2019-2, Q 4.45 and Q 4.46 further clarifies the meaning of paragraph 19:

- Normal expected holding period for a recurring receipt can be established by best practice rather than making the assessment each time a resource is received
- What is “NORMALLY expected”

Each agency will determine and apply.

# Materiality Threshold



- \$100,000 and above in total by specific type of activity
- GASB Impl. Guide 2015-1, Q 7.4.1 clarifies fiduciary activities to base materiality on professional judgement and qualitative factors, then quantitative factors as necessary

# Questions?





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# **GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements***

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## **Implementation Fiscal 2019**



## **GASB 88**

Defines debt and establishes disclosure requirements for:

- Direct borrowings
- Direct placements

Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale.

# Exclusions from Debt Definition

- Leases
- Accounts Payable





# Disclose in Financial Statements

- Amounts of unused line of credit
- Assets pledged as collateral of debt
- Terms specified in debt agreements related to significant:
  - Events of default with finance-related consequences
  - Termination events with finance-related consequences
  - Subjective acceleration clauses



## Fund Type 03 Debt Service

- Notes from direct borrowings and notes from direct placements are reported in debt service (fund type 03)
- Amounts previously reported in a fund type other than debt service (fund type 03) are restated in the current fiscal year
- For additional information, see Note 14 – Adjustments to Fund Balances and Net Position



# General Ledger Accounts

Valid GL accounts in governmental funds:

- 1557 BC CL Direct Borrowings
- 1721 BC NC Direct Borrowings
- 1558 BC CL Direct Placements
- 1722 BC NC Direct Placements

Valid GL accounts in business-type activities:

- 1071 CL Direct Borrowings
- 1221 NC Direct Borrowings
- 1072 CL Direct Placements
- 1222 NC Direct Placements

# COBJs



## Valid COBJs:

- 3846 Issuance of Direct Placements
- 3889 Issuance of Direct Borrowings
- 3XXX – Interest on Direct Placements (TBD)
- 7816 – Principal on Direct Placements
- 7817 – Principal on Direct Borrowings
- 7XXX – Interest on Direct Borrowings (TBD)

# Questions?





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# **GASB Statement No. 87, *Leases***

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## **Implementation Fiscal 2021**



## What is GASB 87?

It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

In general, all leases are presented on the face of the balance sheet:

- Lessor – Receivable and Deferred Inflow of Resources
- Lessee – Asset and Liability

# Impact of GASB 87



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## Currently:

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### Lessee

#### 1. Capital Leases

- A. Transfer of ownership
- B. Bargain purchase option
- C. Lease term  $\geq$  75% of useful life
- D. PV of future minimum lease payments  $\geq$  90% of FMV

Items A and B are Financed Purchases – subject to GASB 88

Items C and D are Intangible Right to Use – subject to GASB 87

#### 2. Operating Leases

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## After GASB 87:

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### Lessee

- 1. Short-term Leases
- 2. Financing Leases
  - A. Contracts that transfer ownership
  - B. Intangible right to use



## Short-term Lease

If the initial lease term, has a “maximum possible term” under the contract of 12 months or less:

- Includes any options to extend regardless of their probability
- For a lease that is cancelable by either party, the maximum possible term is the noncancelable period including any notice period



## Short-term Lease (cont.)

No short-term exception for a transfer of ownership.

Report on a monthly basis similar as previous Operating Leases.



# Contracts that Transfer Ownership

- Transfers ownership of the underlying asset to the lessee at the end of the contract
- Does not have a termination option.
  - Except fiscal funding or cancellation that is not reasonably certain

Functionally accounted for the same as previously for Capital Leases.

# Accounting for Leases – Lessee



## Lease Term

- Begins with noncancelable period, plus the periods covered by the lessee's or lessor's option to:
  - Extend the lease, with reasonable certainty of being exercised
  - Terminate the lease, with reasonable certainty of **not** being exercised



## Accounting for Leases – Lessee (cont.)

- Excludes cancelable periods
  - Periods during which both the lessee and lessor have the option to terminate
  - Rolling month-to-month leases

Ignore fiscal funding/cancellation clauses, unless reasonably certain of being exercised.



## Accounting for Leases – Lessee (cont.)

### Right to Use Asset

- Initial Recognition:
  - Initial lease liability
  - Prepayments
  - Initial direct costs
- Amortization:
  - Systematic & rational manner (SL)
  - Over shorter of useful life or lease term



## Accounting for Leases – Lessee (cont.)

### **Lease Liability**

- Initial Recognition – Present value of future lease payments
  - Other reasonably certain payments
  - Discount using stated or implicit rate in lease (if not available, Comptroller's office will provide rate)
- Amortization
  - Payments applied to accrued interest first, then to the reduction of liability

We are creating a lease amortization template for agency use, which will be available in the Reporting Requirements website.



# Notes to Financial Statements

Disclose the following about its lease activities (which may be grouped for purposes of disclosure) other than short-term leases:

- A general description of its leasing arrangements:
  - Basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined
  - Existence, terms and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability



## Notes to Financial Statements (cont.)

- Total amount of lease assets (and the related accumulated amortization) are disclosed separately from other capital assets
- Amount of lease assets by major classes of underlying assets are disclosed separately from other capital assets
- Amount of outflows of resources are recognized in the reporting period for variable payments not previously included in the measurement of the lease liability



## Notes to Financial Statements (cont.)

- Amount of outflows of resources recognized in the reporting period for other payments (such as residual value guarantees or termination penalties) not previously included in the measurement of the lease liability
- Principal and interest requirements to maturity (presented separately) for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter
- Commitments under leases before the initial lease term



## Notes to Financial Statements (cont.)

- Components of any loss associated with an impairment (impairment loss and any related change in the lease liability as discussed in paragraph 34)

# Exceptions



- Investment assets – Rental property
- Biological assets – Timber, animals and plants
- Intangible assets – Software, patents, copyrights and mineral rights
- Service concession arrangements – GASB 60
- Supply contracts – Power supply arrangements
- Inventory
- Intra-entity leases
- Less than one year



# Next Steps for Financial Reporting Section

- Create new general ledger accounts
- Create new COBJ
- Create new transaction codes
- Identify discount rate to be used instead of a stated lease rate
- Create or modify web applications



## Next Steps for Agencies

Review **all** existing lease contracts under the “new process” to create the initial asset and liability:

- Identify start date
- Identify non-cancelable period
- Identify total possible extension periods (reasonably certain)
- Identify stated interest rate, if provided
- Identify payment amounts

# GASB 87 and 88 Timeline



Fiscal Year	Note 5 – Long-Term Liabilities	Note 8 – Leases
<b>2019</b>	All Financed Purchases* reported as Direct Borrowings	Operating Leases + Capital Leases
<b>2020</b>	All Financed Purchases* reported as Direct Borrowings	Operating Leases + Capital Leases
<b>2021</b>	All Financed Purchases* reported as Direct Borrowings	Leases "Right to Use"**

\*GASB 88 effective fiscal year 2019:

- Transfers ownership at end of contract and cannot contain termination options
- Governmental activities are reported in Debt Service fund type 03
- Business-type activities are reported in fund type 05
- GASB 88 does not include operating leases since they don't transfer ownership at end of contract

\*\*GASB 87 effective fiscal year 2021:

- Operating leases will convert to either "Right to Use" lease or treated as "Rental" expense ("Rental" expense not reported in Note 8)
- All capital leases will be called "Leases"
- Short-term leases are not included in GASB 87 and will be called "Rentals" (not reported in Note 8)

# Questions?





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# ***GASB Statement No. 90, Accounting and Financial Reporting for Majority Equity Interests***

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## **Implementation Fiscal 2020**



## Majority Equity Interest

Defined as a financial interest in a **legally separate organization** represented by shares of stock or otherwise having an **explicit, measurable** right to net resources of organization.

Includes ownership of a majority interest in a related organization (such as a partnership, limited liability company or limited liability partnership).



## Majority Equity Interest (cont.)

An agency has an **explicit, measurable** right to net resources of an organization if the:

- Agency has a present or future **claim to net resources**
- and–
- Agency's share is **determinable**

**Excludes** residual interest in assets that may revert to an agency upon **dissolution** of an organization.



## Investment Determination

A majority equity interest in a legally separate organization should be reported as an investment if the criteria for an investment is met.

Investment is a security or other asset that

- An agency holds primarily for the purpose of income or profit  
–and–
- Has a present service capacity based **solely** on its ability to generate cash or be sold for cash

# Reporting Majority Equity Interest



- Use the equity method of accounting
- Do **not** report the entity as a component unit



## Not Meeting Definition of an Investment

- If an agency holding a majority equity interest in a legally separate organization does not not meet the definition of an investment, the holding of the majority equity interest results in an agency being financially accountable and is reported as a component unit.
- If the component unit is blended, the asset and net position are eliminated in the blending process.

# Questions?





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**Thank you!**

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